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Farm Freedom or Freedom to Farm?

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- Revenue assurance covers many more acres than were covered by crop insurance from 1989-94.
- The revenue assurance figures do not include any administration or private insurer reimbursement costs since administration costs are not included in the crop insurance cost estimates and the role and reimbursement of private insurers under a revenue assurance plan have not been communicated to us.
- Reimbursement to private insurers is roughly approximated in this analysis at 30 percent of total premiums.
- All excess losses (i.e., losses over and above total premiums) are assumed to be paid for by the government.

Table 1. Average Crop Insurance, Average Revenue Assured, and Average Payouts under the Weather Scenario from 1996-2003.

Crop	Average Crop Insurance Costs 1989-1994	Average Percentage of Revenue Assured under the Revenue Assurance Program for the same cost under the Weather Scenario 1996-2003	Average Payouts under 70 Percent Revenue Assurance under the Weather Scenario 1996-2003
	(Million)	(Percent)	(Million)
Barley	$ 11.31	61.0	$ 18.98
Corn	$ 134.43	53.9	$ 470.44
Upland Cotton	$ 110.40	53.2	$ 240.28
Oats	$ 5.91	40.5	$ 21.81
Rice	$ 9.74	61.0	$ 19.43
Grain Sorghum	$ 23.06	54.1	$ 58.22
Soybeans	$ 62.47	59.0	$ 170.77
Wheat	$ 152.57	52.3	$ 393.96
Total	$ 509.89	54.3	$1,393.89

Results

Given the assumptions on average yield insurance costs shown in Table 1, the proportion of average expected revenue that could be ensured for the same government cost varies from 40.5 percent for oats to 61 percent for barley and rice.

If all crops are ensured at the same percentage level, and with the assumed average total crop insurance costs of $510 million, 54.3 percent of average expected revenue could be assured for the same cost. The 54.3 percent lies between the 30 percent of revenue covered with current Catastrophic Coverage and the 70 percent that was assumed in FAPRI Revenue Assurance analysis. Our previous work estimated a government cost for 70 percent Revenue Assurance of $1.4 billion. The results above are preliminary in nature; however, they provide a rough guide as to how yield insurance costs compare to revenue assurance costs.

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Two proposals have surfaced in the U.S. House of Representatives with similar names but very different implications. The "Farm Freedom Act of 1995," introduced by urban members as H.R. 2010, is essentially a phase-out of current programs over five years. It reduces target prices to 4 percent below the preceding year's "established price" from 1997 to 2000, eliminates payments to persons with more than $100,000 in adjusted gross income from nonfarm and nonforestry sources, and eliminates target prices and acreage reduction programs in 2001. It places a cap on the total deficiency payment outlays to cut projected expenditures by $786.7 million in FY 1996, $1.96 billion in FY 1997, $3.26 billion in FY 1998, $4.15 billion in FY 1999, $5.14 billion in FY 2000. This cuts farm program outlays by about $15.3 billion over five years.

The "Freedom to Farm Act of 1995" is not yet a formal bill, but is taking shape among majority members of the House Agricultural Committee. It would eliminate target prices and acreage reduction programs in 1996 and institute decoupled direct payments to replace deficiency payments. The level of these payments would be cut proportionally to achieve outlay reductions of $8.4 billion by FY 2000 and $13.4 by FY 2002. This proposal would retain the 9-month nonrecourse loan program with lower loan rates and continue the EEP program.

The two proposals will impact Iowa differently. While formal analysis is not yet completed, an indication of government payments to Iowa can be estimated by assuming that the payments are set in proportion to the deficiency payments received over the last five years.

Non-CRP government payments to Iowa farms proportionate to aggregate budgeted expenditures under the two proposals and a baseline projection:

Year	Farm Freedom*	Freedom to Farm	Baseline
	(million dollars)		
1996	$ 522	$ 524	$ 593
1997	$ 497	$ 556	$ 710
1998	$ 385	$ 567	$ 727
1999	$ 266	$ 514	$ 666
2000	$ 150	$ 499	$ 651
2001	$ 0	$ 402	$ 601
2002	$ 0	$ 383	$ 577
Total	$ 1,821	$3,445	$4,525

** Farm Freedom is based on a target price concept, but it places a cap on the payments. The cap is what is reported above.*